



Why Audited Financial Statements are Required by the Kansas Division of Workers Compensation

DIVISION OF WORKERS COMPENSATION KANSAS DEPARTMENT OF HUMAN RESOURCES

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K.S.A. 44-532 indicates that a self-insurer shall furnish “proof to the director of the employer’s financial ability to pay such compensation for the employer’s self.”

Questions often arise concerning the necessity of audited financial statements for qualifying to be a self-insured for workers compensation claims in Kansas. Some companies, who would benefit from being self-insured, find the cost of providing audited financial statements expensive. We have been asked, “If banks extend credit on unaudited statements, why is that not sufficient for workers compensation self-insurance?” A discussion our office had with Ms. Anna Anderson, Commercial Operations Officer of BANK IV, N.A. Wichita, Kansas, on December 1, 1983, may answer that question.

When a bank extends credit to a commercial customer, they reserve the right to inspect the business premises and check inventory levels. Banks may maintain the operating accounts of their loan clients and can monitor these balances and compare them with the customer-provided financial statements. Banks have intimate knowledge of the customer’s total outstanding loans, and in the case of an incorporated business, often require a bank officer to sit on the board to oversee operations. Banks can send their own accountants to provide certified statements if needed.

The Division of Workers Compensation does not have as deep an involvement in a client’s business affairs as does a bank. Adequate resources are not available for the Division to perform their own certification of an applicant’s financial records. Audited financial statements serve as a disinterested third party confirmation that the information has been collected according to generally accepted accounting

standards and that the information accurately reflects the actual financial condition of the enterprise.

The Division of Workers Compensation performs a strictly paper analysis of each applicant. No auditing or confirmation is performed on a first hand basis. To obtain accurate information from each applicant and to treat each applicant evenly, audited financial statements are the best and only tool available.

A separate but similar consideration would be to provide federal tax returns or other federal compliance forms in place of audited financial statements. These may seem like adequate alternatives except that the information contained on these documents is customer generated and is not verified in every instance by a disinterested third party. It is our understanding that only 2% to 5% of the federal tax returns are audited, and that many government forms provided for regulatory purpose are not verified until after a problem situation arises. Consequently, these means of substantiated financial information are lacking in usefulness to adequately protect the compensation rights of workers in Kansas.

In addition, K.S.A. 44-584 provides that each group self-insured pool shall submit to the Commissioner of Insurance, a certified independent audited financial statement on or before March 31 of each year. To be consistent with this statute, we too are requiring CPA audited statements.